

Message Text

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70

ACTION ARA-20

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-15

AGR-20 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 RSR-01 /172 W

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R 012215Z AUG 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 3429

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMAWBASSY SAN JOSE 2407

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE SAN SALVADOR 2951

E.O. 11652: NXA

TAGS:NEGEN; XK; ES

SUBJECT: SALVADORAN REACTION TO MANAGUA CACM MEETINGS

REF: A. GUATEMALA 3690; B. GUATEMALA 3646; C. MANAGUA 3245.

GUATEMALA ALSO FOR ROCAP

1. REPRESENTATIVE GOES AND INDUSTRIAL SECTOR SOURCES REPORT A FEELING OF ENCOURAGEMENT RESULTING FROM MANAGUA TRIPARTITE CACM MEETING. FINANCE MINISTER GAVIDIA SAID HIS POSITIVE REACTION WAS NATURALLY MODERATED BY THE HONDURAN CAVEAT THAT ITS POSITION WAS DEPENDENT UPON THE RESOLUTION OF THE BILATERAL PROBLEM WITH EL SALVADOR. CENTRAL RESERVE BANK (BCR) PARTICIPANTS AND THE GENERAL MANAGER OF THE ASSOCIATION OF SALVADORAN INDUSTRIALISTS (ASI) SAW LITTLE OF SUBSTANCE ACCOMPLISHED IN TERMS OF THE CACM RESTRUCTURING AND VIEWED AS SHEER "POETRY" THE IDEA OF REGIONAL ANTI-INFLATIONARY SCHEMES. HOWEVER, THEY DID CONSIDER THE MEETING CONSTRUCTIVE IN LAUNCHING THE HIGH LEVEL COMMITTEE AND

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INITIATING A DIALOGUE ON ISSUES SUCH AS TARIFFS, INCENTIVES,

AND DEVELOPMENT FINANCING. GAVIDIA SAID THE EXTENSION OF THE SAN JOSE PROTOCOL REPRESENTED THE LINE OF LEAST RESISTENCE. IN OTHER MATTERS WE HAVE HEARD NOTHING CONTRARY TO VIEWS EXPRESSED IN REFTELS.

2. BOTH THE EXTENSION OF THE SAN JOSE PROTOCOL FOR FIVE YEARS AND CERTAIN PROVISIONS IN THE EXTENSION OF INDUSTRIAL FISCAL INCENTIVES WILL REQUIRE LEGISLATIVE ASSEMBLY APPROVAL, BUT NEITHER OUR SOURCES NOR WE SEE ANY MAJOR OBSTACLES TO PASSAGE. DESPITE A HIGHLY SOLVENT FISCAL SITUATION, THE GOES WILL ARGUE THAT THE REVENUES GENERATED FROM THE 30 PERCENT IMPORT DUTY SURCHARGE (\$22 MILLION IN LAST FIVE YEARS; PROBABLY \$7 MILLION IN 1973) ARE NECESSARY FOR PLANNED GOES PUBLIC INVESTMENTS. ALTHOUGH THE PRICE EFFECTS ON CERTAIN HIGHLY PRICE-ELASTIC GOODS MAY CONCERN SPECIFIC SECTORS OF INDUSTRY, ASI DOES NOT PLAN TO TAKE A POSITION ON THE ISSUE SINCE MANY MEMBERS FAVOR THE TARIFF

PROTECTION THE PROTOCOL AFFORDS. CONCERNING THE EXTENSION OF FISCAL INCENTIVES, ASI'S GENERAL MANAGER AND BCR OFFICIALS SAID THE ACTION WAS PROBABLY THE ONLY ONE POSSIBLE SINCE STUDIES ESSENTIAL TO A NEW POLICY ON INCENTIVES AND TARIFFS HAVE YET TO BE COMPLETED.

3. AS FOR THE REPORTED PLAN TO ESTABLISH REGIONAL PURCHASING ORGNIZATIONS AND TO STUDY OTHER MEASURES TO CONFRONT INFLATION, WE FOUND LITTLE ENTHUSIASM. THE JOINT PURCHASE OF BASIC GRAINS IS LESS OF AN ISSUE NOW THAT GOOD HARVESTS PROMISE RELIEF FROM SHORTAGES AND THE NEED TO IMPORT EXTRA-REGIONALLY. NONE OF OUR SOURCES SAW ANY VALUE IN PURSUING REGIONAL GOVERNMENT CONTRACTS FOR THE PURCHASE OF PETROLEUM. ON OTHER ANTI-INFLATIONARY MEASURES, A BCR PARTICIPANT DISTINGUISHED BETWEEN PRACTICAL REGIONAL POSITIONING ON EXTERNAL MONETARY DEFENSE MEASURES AND ON DOMESTIC ANTI-INFLATIONARY MEASURES, NOTING ON THE LATTER ISSUE THAT FACTORS ARE QUITE DISSIMILAR AMONG THE FIVE COUNTRIES AND THAT EL SALVADOR IS THE MOST IN EQUILIBRIUM.
MOSKOWITZ

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